



ANNUAL FINANCIAL REPORT
(SINGLE AUDIT)
CITY OF ROCKVILLE, MARYLAND
JUNE 30, 2009

City of Rockville, Maryland

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133

To the Mayor and Council and City Manager
City of Rockville, Maryland

Compliance

We have audited the compliance of the City of Rockville, Maryland, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2009. The City of Rockville, Maryland's major federal programs are identified in the summary of audit results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Rockville, Maryland's management. Our responsibility is to express an opinion on the City of Rockville, Maryland's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Rockville, Maryland's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Rockville, Maryland's compliance with those requirements.

As described in items 2009-01 and 2009-02 in the accompanying Schedule of Findings and Questioned Costs, the City of Rockville, Maryland did not comply with requirements regarding monitoring and allowable costs that are applicable to its Community Development Block Grant. Compliance with such requirements is necessary, in our opinion, for the City of Rockville to comply with the requirements applicable to that program.



In our opinion, except for the noncompliance described in the preceding paragraph, the City of Rockville, Maryland complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of the City of Rockville, Maryland is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Rockville, Maryland's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Rockville's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraphs and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined above. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The City of Rockville's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the City of Rockville's responses and, accordingly, we express no opinion on it.



Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Rockville, Maryland, as of and for the year ended June 30, 2009, and have issued our report thereon dated October 30, 2009. Our audit was performed for the purpose of forming our opinion on the financial statements that collectively comprise the City of Rockville's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the Mayor and Council, City Manager, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Reznick Group, P.C.

Baltimore, Maryland
November 24, 2009

City of Rockville, Maryland

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2009

Federal Grantor/Pass-Through Grantor Program Title	Grant Number	CFDA Number	Federal Expenditures
Department of Housing and Urban Development			
Pass-Through from Montgomery County Community Development Block Grant	B-99-UC-24-0001	14.218	\$ 357,558
EDI Special Project	B-04-SP-MD-0327	14.251	74,558
Department of Justice, OAAG			
Bullet Proof Vest Grant	2004BUBX04021318 2006BUBX06131975	16.607	741
Department of Transportation			
Pass-Through from Maryland State Highway Administration - Safe Routes to School Grant	S07-001	20.205	99,123
Environmental Protection Agency			
Pass-Through from Maryland Department of the Environment - Rockville Storm Water Improvement	XP-98394201	66.606	<u>197,684</u>
			<u>\$ 729,664</u>

See notes to schedule of expenditures of federal awards

City of Rockville, Maryland

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2009

NOTE 1 - SCOPE OF AUDIT PURSUANT TO OMB CIRCULAR A-133

This Single Audit of the City of Rockville, Maryland was conducted in accordance with the provisions of the Office of Management and Budget's Compliance Supplement for Single Audits of State and Local Governments. Compliance testing of all specific requirements, as described in the compliance supplement was performed. Compliance testing of specific requirements was performed for the following major federal financial assistance programs. These programs cover 49% of total federal financial assistance program expenditures.

<u>Grant Description</u>	<u>CFDA Number</u>	<u>Fiscal Year 2009 Expenditures</u>
Department of Housing and Urban Development		
Pass-Through from Montgomery County Community Development Block Grant	14.218	<u>\$ 357,558</u>

NOTE 2 - FISCAL PERIOD AUDITED

Single Audit testing procedures were performed for program transactions occurring during the fiscal year ended June 30, 2009. Single Audit testing has most recently been performed on transactions occurring during the fiscal year ended June 30, 2008.

City of Rockville, Maryland

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2009

SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of the City of Rockville, Maryland.
2. No significant deficiencies were identified during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of the City of Rockville, Maryland, which would be required to be reported in accordance with Government Auditing Standards, were disclosed during the audit.
4. No significant deficiencies were identified during the audit of the major federal award programs.
5. The auditors' report on compliance for the major federal award programs for the City of Rockville, Maryland, expresses a qualified opinion.
6. There are two audit findings relative to the major federal award programs for the City of Rockville, Maryland.
7. The programs tested as major programs include: See Note 1 to Schedule of Expenditures of Federal Awards.
8. The threshold for distinguishing type A and B programs was \$300,000.
9. The City of Rockville, Maryland qualified as a low-risk auditee.

City of Rockville, Maryland

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

June 30, 2009

SIGNIFICANT DEFICIENCIES - FINANCIAL STATEMENT AUDIT

NONE

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS
AUDIT

Reference No. - 2009-01

CFDA No. 14.218 - Department of Housing and Urban Development - Community Development Block Grant (CDBG) - 2008/2009 Federal Award No. B-99-UC-24-0001 - Pass-through from Montgomery County

Criteria:

The City is required by the grant agreement to perform the monitoring function for the related sub-grantees of the following programs included in the CDBG grant: Latino Outreach Naturalization/Community Ministries, Resident Counselor/Rockville Housing Enterprises, Top Banana Home Delivered Groceries, Community Ministries/Elderly Ministries, Public Housing Renovations, Mobile Med Health Care, and Safe and Habitable Homes/Community Ministries.

Statement of Condition:

The City was not performing an effective monitoring of the sub-grantees. The sub-grantees of CDBG were not following the guidelines of the grant agreement in the appropriate manner.

Cause and Effect:

As a result of the City not performing an effective monitoring of the sub-grantees, the following requirements were not performed appropriately: The sub-grantees were not servicing the appropriate number of persons/homes that were stated in the agreement; reports were being submitted by the sub-grantee to Montgomery County before being reviewed for accuracy by the City; funds that were allocated in the budgets for certain resources were being used to pay other items without the appropriate timely written approval.

City of Rockville, Maryland

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

June 30, 2009

Recommendations:

The City should formalize a monitoring procedures manual and perform and document those procedures on a periodic basis.

Management Response:

The Department of Community Planning and Development Services will prepare a "Project Monitoring Manual" (the Manual) that will stipulate the procedures required to be followed when monitoring each sub-grantee as a means of ensuring compliance with the terms of the prevailing CDBG Agreement. The manual will be completed by January 15, 2010. Site visits to all sub-grantees will begin during the month of December 2009.

The Manual will include but not be limited to:

1. Requirement of a minimum of one site visit to place of business for each sub- grantee per calendar year in order to:
 - a. Discuss project activities and progress and to review contract requirements.
 - b. Review method of income verification and examination of income verification records.
 - c. In cases of direct assistance to clients, obtain names and contact numbers for the purpose of verifying activities with sample clients.
 - d. Discuss any problems which may have arisen.
2. Required for projects involving construction:
 - a. Review of contract documents to ensure incorporation of requisite federal Labor Standards including David-Bacon wage requirements prior to award of contract.
 - b. Verify that current wage decisions are in bid documents and contract.
 - c. Attend pre-construction conference to ensure that required federal wage standards are emphasized and discussed.

City of Rockville, Maryland

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

June 30, 2009

- d. Conduct at least one on-site inspection per month while work is underway. While doing so confirm that workers are aware of federal salary and fringe benefit requirements.
 - e. Conduct site visit prior to final payment to confirm work has been completed in conformance with the contract.
 - f. Ensure that Federal labor standards have been met prior to authorizing any reimbursement payments by reviewing certified payroll reports and Employee Interview records.
- 3. Required a written confirmation of each site visit and/or inspection performed and the matters discussed to the sub-grantee with copy to file.
 - 4. Require sub-grantees to provide City with copies of all quarterly project benefit data reports sent electronically to Montgomery County.
 - 5. Require written requests for any changes in scope of agreement or deliverables. Allow justifiable changes to be made only after written approval has been granted. In cases where substantial changes are requested, obtain written approval or contract modification from Montgomery County.
 - 6. Maintain a file on each sub-grantee which shall contain at a minimum:
 - a. A copy of the agreement
 - b. Copies of all correspondence
 - c. Records of on-site visits and/or inspections
 - d. Copies of requests for payment and approvals or denials of the requests
 - e. Copies of quarterly reports

City of Rockville, Maryland

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

June 30, 2009

Reference No. - 2009-02

CFDA No. 14.218 - Department of Housing and Urban Development - Community Development Block Grant - 2008/2009 Federal Award No. B-99-UC-24-0001 - Pass-through from Montgomery County

Criteria:

The City is required to review reimbursements submitted by the sub-grantees (refer to Reference No. - 2009-01 for listing of specified programs) to ensure that all costs being submitted are allowable under the terms of the grant agreement for CDBG.

Statement of Condition:

The City did not review the reimbursements submitted by the sub-grantees effectively. The reimbursements included payroll items that did not correspond with the terms in the grant agreement.

Cause and Effect:

As a result of the City not reviewing the reimbursements submitted by the sub-grantees effectively, the reimbursements paid to the sub-grantees included supporting documentation that contradicted the terms of the grant agreement.

Recommendations:

The City should thoroughly review the reimbursements requests submitted by the sub-grantees and compare to the terms of the grant agreement for determination of allowability.

Management Response:

Prior to processing for payment of any CDBG Reimbursement Request submitted by a sub-grantee, Community Planning and Development Services (CPDS) staff shall carefully review the specifics to the request to determine if it is in compliance with the terms of the relevant CDBG sub-grantee agreement. In cases of discrepancy, CPDS Staff shall contact the sub-grantee in writing to determine the causes for the problem(s) in order to ascertain what steps may be taken to bring the request into compliance. In the event compliance cannot be achieved, the Reimbursement Request shall be denied.

City of Rockville, Maryland

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

June 30, 2009

When submitting a CDBG Request for Payment to the Finance Department, CPDS staff shall include with the request:

- A copy of the payment request from the sub-grantee.
- A cover sheet containing a completed checklist confirming that the items requested for reimbursement are in accordance with those in the CDBG Contract.
- A copy Contract Attachment which pertains to the sub-grantee budget, outcomes and deliverables.

City of Rockville, Maryland

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

June 30, 2009

SIGNIFICANT DEFICIENCIES - FINANCIAL STATEMENT AUDIT

NONE

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS
AUDIT

NONE